

Message Text

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C O N F I D E N T I A L DAMASCUS 4317

E.O. 11652: GDS
TAGS: EGEN, EAID, BEXP, SY
SUBJECT: ANTI-BUSINESS ECONOMIC MEASURES CAUSE UNCERTAINTIES
IN SYRIAN BUSINESS COMMUNITY

1. SUMMARY: A SERIES OF ILL-CONCEIVED MEASURES DAMAGING
TO SMALL AND MIDDLE-LEVEL BUSINESS IN SYRIA OVER THE LAST
SEVERAL MONTHS HAS CAUSED SUBSTANTIAL LOSS OF BUSINESS
CONFIDENCE. GOVT'S MOTIVATION NOT PURELY IDEOLOGICAL, BUT
LITTLE THOUGHT HAS BEEN GIVEN TO CONSEQUENCES. END SUMMARY.

2. IN 1977 THE GOVERNMENT ANNOUNCED THE ESTABLISHMENT
OF A GOVERNMENT COMPANY FOR FRUITS AND VEGETABLES THAT
WOULD REPLACE THE STREET VENDORS WHO HANDLE THE OVER-
WHELMING BULK OF TRADE IN THESE GOODS. THE MEASURE WAS
A FIASCO. THE POLICE WERE NOT PREPARED TO COPE WITH THE
TASK OF RUNNING FOUR OR FIVE THOUSAND PUSHCARTS OFF THE
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STREETS, FARMERS REFUSED TO SELL TO THE GOVERNMENT COMPANY,
AND SEVERAL GOVERNMENT MARKETS BURNED DOWN UNDER SUSPICIOUS
CIRCUMSTANCES. FURTHERMORE, THESE MARKETS DID NOT ATTRACT
HOUSEWIVES BECAUSE OF THEIR POOR SERVICE, AND MIXED
QUALITY OF GOODS DESPITE SLIGHTLY LOWER PRICES. THE
MARKETS ARE STILL OPEN BUT ARE NOT DOING WELL.

3. EARLY IN 1978 SEVERAL URBAN BUS ROUTES PREVIOUSLY OPERATED BY PRIVATE BUSES WERE RESERVED TO A NEW PUBLIC SECTOR BUS COMPANY. IN THIS CASE THE PRIVATE BUSES (OWNED USUALLY BY THEIR DRIVERS) WERE SIMPLY FORBIDDEN TO OPERATE. ALTHOUGH GOVERNMENT BUS SERVICE HAS BEEN NO WORSE THAN PRIVATE SERVICE, 200-300 PRIVATE BUS OWNERS HAVE BEEN FORCED TO SEEK NEW ROUTES, GENERALLY LESS REMUNERATIVE, OR SIMPLY HAVE GONE OUT OF BUSINESS.

4. IN MARCH-APRIL 1978 THE GOVERNMENT SUDDENLY RETRACTED THE QUOTAS GIVEN PRIVATE BUSINESSMEN TO IMPORT READY MADE CLOTHES AND SOME OTHER CONSUMER GOODS. THE OSTENSIBLE REASON GIVEN WAS THAT TWO NEW GOVT CLOTHING FACTORIES WOULD OPEN. BEST GUESSES, HOWEVER, ARE THAT THE FACTORIES WILL NOT OPEN UNTIL EARLY 1979 AND EVEN THEN PRODUCTION WILL BE INADEQUATE IN QUALITY AND QUANTITY. IN THIS CASE SEVERAL HUNDRED SMALL CLOTHING STORES AND BOUTIQUES WHICH GENERALLY SPECIALIZED IN HIGH-PRICED FOREIGN CLOTHES WILL BE FORCED TO SHUT THEIR DOORS. TO RUB SALT IN THE WOUNDS, THERE ARE RUMORS THAT BA'ATH PARTY FUNCTIONARIES HAVE NOW BEEN OFFERING UNUSED QUOTAS FOR SALE TO SMALL MERCHANTS.

5. THE MOST SPECTACULAR MEASURE IN TERMS OF PUBLIC AWARENESS (THOUGH RELATIVELY SMALL IN TERMS OF TOTAL COST) WAS THE SUDDEN RESTRICTION OF SPECIAL IMPORT CONFIDENTIAL

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QUOTAS GRANTED TO COUNTRIES PARTICIPATING IN THE DAMASCUS INTERNATIONAL FAIR LIMITING FURTHER SALE OF IMPORTED GOODS TO TWO PUBLIC SECTOR COMPANIES. OSTENSIBLY TAKEN AS A MEASURE TO PREVENT SMUGGLING AND EXCESSIVE PROFITS, THIS LAST ACTION CONSTITUTES A VIOLATION OF THE CONDITIONS UNDER WHICH SOME FORTY COUNTRIES PARTICIPATED IN THE FAIR AND HAS LED TO WIDESPREAD PROTESTS BY THEIR EMBASSIES (INCLUDING US). CONTINUATION OF THIS RESTRICTION WOULD SERIOUSLY HAMPER WESTERN PARTICIPATION IN FUTURE FAIRS.

6. THIS PATTERN OF HARRASSMENT OF SMALL TO MEDIUM-SIZED BUSINESSMEN HAS FED THE DAMASCUS RUMOR MILL. VISITING AMERICAN BUSINESSMEN ARE ASSAILED BY TALES THAT THE GOVERNMENT IS ABOUT TO CANCEL ALL CONTRACTS SIGNED THROUGH AGENTS AND ALL REGISTRATIONS OF AGENTS FOR FOREIGN COMPANIES. BECAUSE OF THE RIPE OPPORTUNITIES FOR CORRUPTION OFFERED BY THESE NEW MEASURES (RESTRICTED IMPORTS HAVE CAUSED HIGH PRICES AND HIGH PROFITS WHICH COULD THEORETICALLY BE DIVERTED TO INFLUENTIAL GOVERNMENT AND PARTY FUNCTIONARIES), RUMORS AROUND THAT HIGH OFFICIALS ARE TRYING TO GET THEIR GRAFT PAID IN

ANTICIPATION OF A COUP. MORE LOGICAL EXPLANATIONS THAT THE PARTY IS REASSERTING CONTROL OF THE ECONOMY AND ATTEMPTING TO CLOSE DOWN COMPETITION TO PUBLIC SECTOR ORGANIZATIONS ALSO ARE CIRCULATING. THIS WOULD BE A DANGEROUS GAME FOR THE GOVERNMENT: PUBLIC SECTOR ESTABLISHMENTS CANNOT COVER NATIONAL DEMAND. THE IMMEDIATE RESULTS WOULD BE INFLATION, INCREASED SMUGGLING AND A DECREASE IN THE LEVEL OF CONSUMPTION.

7. LOCAL REACTION HAS BEEN HEAVILY UNFAVORABLE. GOVT OFFICIALS IN CONCERNED MINISTRIES LEAVE FOREIGN DIPLOMATS WITH THE IMPRESSION THAT THEY DISAPPROVE OF THESE ILL-CONCEIVED MEASURES BUT THAT THE DECISION HAS COME FROM ABOVE. THE BUSINESS COMMUNITY IS IN A MILD STAGE
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OF PANIC. THE BLACK MARKET RATE OF THE SYRIAN POUND HAS BEGUN TO DROP AGAIN AFTER RECOVERING FROM THE LOW LEVELS CURRENT AFTER THE ARRESTS OF MAJOR BUSINESSMEN IN THE SUMMER OF 1977. BUSINESSMEN WITH PROPOSALS FOR SMALL INVESTMENT PROJECTS WHO WERE A COMMON SIGHT FIVE OR SIX MONTHS AGO HAVE CEASED TO VISIT US.

8. COMMENT: THE GOVERNMENT SEEMS TO BE GRATUITOUSLY STRIKING AT THE LIVELIHOOD OF THOUSANDS OF SMALL MERCHANTS AND BUSINESSMEN WHILE LEAVING TWENTY OR SO MAJOR FIVE PERCENTERS WITH PROMINENT FRIENDS UNAFFECTED. IT IS ALSO DRIVING OUT OF BUSINESS THOSE WHO PROVIDE THE GREASE THAT KEEPS SYRIA'S CUMBERSOME ECONOMIC APPARATUS FUNCTIONING AND IMPORT THE BULK OF CONSUMER GOODS. GIVEN COUNTRY'S HISTORY, THESE MOVES ARE INEVITABLY SEEN BY MANY LOCAL OBSERVERS AS ANOTHER DOCTRINAIRE PARTY ASSAULT ON FREE ENTERPRISE. IN FACT, GOVT'S MOTIVATION IS PROBABLY MUDDLED COMBINATION OF IDEOLOGICAL HOSTILITY ON PART SOME PARTY OFFICIALS, INDIVIDUAL HOPES OF PROFITING FROM GOVT TAKEOVER, AND IRRITATION OVER QUOTA ABUSES, PROFITEERING, AND IMPORT SMUGGLING BY A NUMBER OF MERCHANTS. GOVT'S ACTIONS HAVE BEEN INEPT, AND ONE MUST QUESTION WHETHER THOSE CALLING THE SHOTS HAVE THOUGHT OUT THE CONSEQUENCES.
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